

DUE DILIGENCE REPORT TO THE SOMERVILLE COMMUNITY

June 13, 2014

- **Bethesda (MD) Row-Federal Realty Investment Trust and National Development, May 27, 2014**
- **Lake Shore East and University Village, Chicago, IL- Union Square Station Associates May 28, 2014**
- **Brewery Blocks and South Waterfront, Portland OR Gerding Edlen Development, May 29, 2014**
- **Santana Row, San Jose CA-Federal Realty Investment Trust and National Development, May 30, 2014**
- **Landmark Center and Lafayette City Center, Boston MA- The Abbey Group, June 11, 2014**

Mayor Joseph Curtatone
City of Somerville

Nancy Busnach Chair,
Somerville Redevelopment Authority

Michael Glavin, Executive Director
OSPCD

Michael Dwyer Member,
Somerville Redevelopment Authority

Edward O'Donnell, Director of Economic
Development, OSPCD

Wig Zamore, Chair
Union Square CAC

Amanda Maher, Senior Economic Planner,
OSPCD

Mike Dacey, Member
Union Square CAC

Maryann Heuston, Ward 2

Mark Neidergang, Ward 5

Introduction and Purpose

Beginning on May 27, 2014, a ten-member delegation from the City of Somerville began what was, in many ways, a very grueling but ultimately very rewarding trip to visit completed sites by each of the four finalists vying to be selected as the City's Master Development partner for the enhancement and revitalization of Union Square. The City's delegation was led by Mayor Joseph Curtatone, along with members of both the Somerville Redevelopment Authority (SRA) and the Union Square Advisory Committee (CAC), members of the Board of Aldermen and professional staff from the Mayor's Office of Strategic Planning and Community Development (OSPCD). The purpose of these trips, the last of which was held on June 11, 2014, was to provide city representatives the opportunity to closely view projects by each of the four competing development teams, to make assessments on how each of those projects, along with the experience and capacity of those teams, might be relevant to the goal of enhancing Union Square. Members of the City delegation were able to pose specific questions of the competing teams, relative to their approach to the revitalization of Union Square, their experience in working with existing owners and businesses and their plans on how best to retain the Square's unique atmosphere. The delegation saw examples of how new infill development could be successfully integrated alongside historic structures. The delegation was able to determine how each of the sites visited interacted with public transit systems, a vital element in the future of Union Square. In addition, the delegation was also able to hear from elected officials, professional planning staffs and community advocates on their past dealings with each of the four finalists as perhaps a guide on what to expect in future dealings with a Master Developer partner.

The due diligence effort conducted by the City's delegation was a logical next step before the selection of a Master Developer partner by the SRA. Although this process traces its roots back to the 2009 re-zoning of Union Square, the 2012 adoption of SomerVision, the City's twenty year master planning process that articulates Somerville's shared values and goals, and the 2012 adoption of the Union Square Revitalization Plan, the most recent effort in this ongoing process is found in the Request for Qualifications (RFQ) that was released by the SRA on December 5, 2013. From that solicitation, nine qualified development teams responded on January 31, 2013. Throughout the month of March, all nine teams were given the opportunity to present their case to the SRA and the CAC. OSPCD professional staff reviewed each of the nine respondents in regard to the teams' compliance with the Qualifications Criteria contained in the Request for Qualifications; staff comments were made available to both the SRA and the CAC. In early April, the CAC voted to narrow the list and recommended four of the teams to the SRA as finalists in the selection process. On May 8, 2014, the SRA concurred, accepting all four of the recommendations as finalists. Less than three weeks later, the initial due diligence visit occurred.

Throughout this ongoing process to select a Master Development partner, every effort has been made to ensure that this is an open and transparent process. The nine responses to the RFQ have been posted online at the City's website. Each of the presentations made to the SRA and the CAC were made available on the City's cable access stations, with notes and materials also posted online. Minutes of both SRA and CAC meetings are available online. Public comment from those in attendance at the CAC meetings was accepted at the beginning and end of each CAC meeting. Lastly, the CAC Chairman's final report recommending the four finalists to the SRA and dated April 28, 2014 is also available for public viewing, with all information available at the following web address:

<http://www.somervillema.gov/departments/ospcd/economic-development/union-square-redevelopment>. Finally, throughout our due diligence trip, the thoughts, impressions and reactions of

the delegation were posted online. A posting for each stop on our trips are available to all at <http://www.somervillebydesign.com/> and is included as an addendum to this report.

It is our intention that this report be made available to the members of the SRA, the CAC and the community at large. After the selection of a Master Developer partner by the SRA, the CAC will continue to be an involved and vital part of the City's ongoing relationship with its partner, along with the continued involvement of the community as a whole. Here, then, are the notes, impressions and comments from this due diligence effort.

Responses to Specific Areas of Concern

During time spent with the four finalists, the due diligence team had an opportunity to ask the finalists an array of questions. There were several categories that received special attention, given the nature of the development expected at Union Square. These categories included: financing, developer buy/hold strategy, use of union labor, experience with infrastructure, support for small businesses, approach to job creation, track record of infill/historic preservation, and plan for its first 100 days if selected as a Master Development partner.

Financing

When considering a Master Developer partner for Union Square, one of the most critical concerns is whether the partner will have the financial wherewithal to see the project through to completion. In selecting a partner, it is critical to understand how each of the teams is currently leveraged in terms of debt and equity, and where the teams intend to draw capital from in order to take on a project the size and scope of Union Square.

- Federal Realty is structured as a real estate investment trust (REIT). They would have the capacity to self-finance a project like Union Square, drawing on its own equity and access to debt markets for development funds. As a publically traded company, Federal takes pride in its ability to weather downturns successfully. Federal explained that it was one of only three profitable REITs during the Great Recession, in large part due to its conservative balance sheet. Overall, Federal has \$10 billion in equity versus only \$2 billion in debt.
- US2, a joint venture between Magellan and Mesirow Financial, is a privately-owned company that typically draws on both national and international investors for equity and debt financing. Most of these partners are those who appreciate long-term investments, taking a decade or more to realize significant profit. Despite its institutional partners, US2 also stated that it would regularly invest its own funds in order to guarantee the team had “skin in the game” — particularly during the early stages of the project or during difficult economic periods. Preliminary analyses suggest US2 would contribute \$12 million in out-of-pocket expenses before Union Square construction begins.
- Gerding Edlen is perhaps the most traditionally financed candidate, drawing on institutional partners such as JPMorgan Chase. For the project in Union Square, Gerding expects to draw on discretionary capital from its \$400 million private equity fund. Currently, Gerding carries 60% debt to its 40% equity in projects.

Prior to the due diligence tour, an SRA member shared online research that indicated that during the economic downturn, Gerding Edlen had to give a few of its projects back to the bank—costing investors nearly \$100 million. When questioned about this during the development tour, Gerding explained that indeed, it had built a few condo projects at the height of the market in which they lost all of their equity. However, Gerding stayed the course and continued to see the projects through to completion, including the sale of individual units on behalf of the banks. Gerding’s cooperation with banks during a tumultuous economic period actually solidified its relationships with some of the leading national investment banks, and Gerding was willing to provide letters of reference to indicate such. Gerding expressed that it has learned from past mistakes and now has a stronger hold on its finances than ever before.

- The Abbey Group’s response to how it is capitalized was somewhat less specific. Principals of the firm stated that its sale of the landmark Center provided the Abbey Group with a very strong and liquid position for new projects on the scale of Union Square. The firm is a family-run business and relies heavily on its equity in order to finance projects. As such, it has what they call “patient capital” and are able to take on more challenging projects that others may need to rush to please investors. The development of 45 Province Street, a high end condominium project in Downtown Boston that came on line in the depths of the last economic recession, was offered as an example of the Abbey Group’s ability to withstand these downturns and stay with a project. In some instances, the Abbey Group takes on debt, such as construction loans when it finances the development of condominiums that will later be sold. The Abbey Group also noted that it would seek to draw on historic and brownfield tax credits in order to help fund the redevelopment of Union Square.

Buy/Hold Strategy

In addition to looking at the ways in which a developer would finance the redevelopment of Union Square, it is also important to understand how the companies approach buying property and holding it versus buying property, redeveloping it and then selling to other investors.

- Federal Realty almost exclusively buys and holds its property. Federal’s history of targeting premier retail properties in supply-constrained markets and holding these properties is what has enabled Federal to move into the mixed-use development market with a strong balance sheet.
- US2 typically holds its property. The notable exception is the residential condominium units that US2 puts up for sale in order to increase local homeownership opportunities.
- Gerding Edlen takes a mixed-approach, with its strategy being less clear. At the Brewery Blocks, Gerding noted that a few of the buildings the firm intended to hold were ultimately sold in order to re-capitalize. Along the South Portland Waterfront, Gerding has held on to its property. Principals explained that “each project is managed in accordance to market conditions”.
- The Abbey Group almost always holds projects. The one notable exception is that the Abbey Group sold off the Landmark Center in 2011, nearly 15 years after they originally acquired the property. The Abbey Group sold the property to Samuels for \$530.5 million, which allowed the Abbey Group to recapitalize and flexibility in taking on new projects.

Use of Union Labor

Members of the due diligence team have shown particular interest in developers’ intended use of organized labor. This issue area is of special concern for the developers whose primary developments have not occurred in the Northeast (i.e. US2 and Gerding Edlen). Organized labor in the Boston region looks much different than organized labor in either the Midwest or Northwest. Locally, labor costs have skyrocketed, driven in part by the shortage of skilled workers in the trades. Indeed, a recent Boston Business Journal [article](#) noted that when examining costs and prices for development in Boston vs. Chicago, “the cost in Chicago, a union town, were 30-to-40 percent lower than to build in Boston.” Therefore, the team wanted more information about developers’ intent to draw on organized labor.

- Federal Realty stated that it would evaluate the use of organized labor vs. open shop hiring pending the size, scale, cost and other circumstances surrounding the redevelopment of Union Square. It was noted, however, that the speculative office building on Block 2 at Assembly Row was built with union labor.
- US2, the Chicago-based firm, has taken on projects in the past that were comprised of all union labor. In Union Square, US2 stated that their use of organized labor would depend on the size and scale of projects proposed, in accordance with applicable zoning regulations. Local vendors and local residents would be given a priority in terms of subcontracts and hiring.
- Gerding Edlen stated that it has strong ties to labor; the company has established a strong presence in Boston and has worked locally with the construction trades to bring them to the table—though it was noted that these were larger projects and not 4-5 story wood frame construction projects, as anticipated for some of the Union Square blocks. Gerding also mentioned drawing on labor as a potential financing partner.
- The Abbey Group did not specifically address their use of organized labor.

Experience with Infrastructure

Two of the most immediate priorities of the selected master developer will be to sit down with the MBTA regarding station design for the incoming Green Line stop along Block D-2, and to sit down with Parsons Brinkerhoff, the firm leading the infrastructure improvements (water, sewer, street and public surface areas.) slated for Union Square. As some have described it, the infrastructure is the “cake” on which the “frosting” (building development) can take place. It is beneficial, then, to select a team that has experience in coordinating large-scale and complex infrastructure projects across multiple agencies.

- Federal Realty is at some advantage given that it has worked closely with the MBTA on the construction of a new Orange Line station at Assembly Row. However, Assembly Row notwithstanding, Federal has proven its ability to coordinate with local and regional transit agencies. Bethesda Row, for instance, is flanked by two new transit stations along the region’s light rail corridor. Federal has shown its willingness to help finance infrastructure projects in the past, both through direct investment and by leveraging district improvement financing (DIF).
- US2 highlighted the Lakeshore East project as one that required finding creative solutions to infrastructure impediments. In addition to a challenging, three-story grade differential topography, the post-industrial rail yard was surrounded by a multi-level road network that limited access. Magellan initially faced \$100 million in infrastructure costs, which they subsequently reduced to \$17 million through the creative use of tax-increment financing (TIF), allowing the project to move forward. US2 expressed its willingness to explore public-private partnerships that leverage DIF/TIF financing to fund infrastructure projects in Union Square. US2 also stated that it would be open to committing some of its own resources to financing infrastructure.
- Gerding Edlen also showed an impressive track record and vast experience in both planning and financing infrastructure improvements. The Pearl District, where the Brewery Blocks are located, was once isolated from Portland’s downtown. To improve access, Gerding helped to facilitate the construction of a North-South streetcar system to create new connections. Along the South

Portland Waterfront, the former industrial area had almost no functional infrastructure in place. Gerding partnered with both the City and the Oregon Health and Science University, which funded new infrastructure (streets, utilities, parking), for the extension of light rail and an aerial tram using TIF financing, which Gerding then paid for using funds generated through new development. Gerding indicated that it would work with the City to identify state and federal resources, including tax credits, for investing in Union Square's infrastructure. Where appropriate, Gerding indicated it would contribute to the costs of infrastructure improvements.

- The Abbey Group discussed its experience working with the MBTA, as the new Fenway T stop was opened alongside the Abbey Group's new development at the Landmark Center. Similarly, the roads and street pattern had to be revamped from Audubon Circle to Park Drive to accommodate the development at Landmark Center. Moreover, in an agreement with the City of Boston, the Abbey Group gave back a key component of land that would help to complete the missing link of the Emerald Necklace. The Abbey Group cited the 23L Program, MassWorks grants, TIF and Chapter 121A solutions as possible ways to finance the infrastructure improvements in Union Square.

Support for Small and Local Businesses

Somerville is a city of small, locally-owned businesses, and Union Square is an important part of the City's economic vitality. There has been reasonable concern that redevelopment of Union Square will push out some of the smaller, locally-owned businesses and entrepreneurs. The delegation absolutely appreciates that these businesses are an important part of what makes Union Square the funky, vibrant place it is today. The retention of the diverse roster of businesses, even as larger scale development in Union Square moves forward, is essential. As such, each team was asked about its experience supporting small businesses, and plans for relocating during construction.

- Federal Realty explained that it strives for a mix of local and national tenants. The national tenants, such as Apple at Bethesda Row, are on a higher rent scale and effectively subsidize the rents for independent businesses like Ginger, Lou Lou and Redwood. When appropriate, Federal has given rent relief to small or locally-owned businesses for a period of time either during construction or for a period of time while they are getting established. A prominent example of this is Bethesda Bagel, which the community said was an essential neighborhood shop. Decisions to grant rent relief are made on a case-by-case basis, in what seemed like an ad hoc manner. However, Federal noted that typically, subsidized businesses thrive in due time, even at market rates, because the developments it creates generate high foot traffic and consumer demand.

Federal also said that it would look to understand local business needs and consider how to make size, space and location options available to suit business need. In Union Square, Federal would consider flexible leases and/or interim relief for temporarily struggling businesses.

- US2 has experience retaining and supporting local businesses, as evidenced at University Village. Shopping, dining and service companies seemed almost exclusively independent firms. Moreover, US2 designed office spaces with smaller footprints in order to encourage a mix of boutique and local uses. When possible, US2 developed University Village using local, MBE and WBE firms—which accounted for a total of 45% of construction contracts. US2 implemented a “fast pay” program to ensure that local vendors, which typically face greater cash flow challenges than larger, most established firms, are paid within 15 days of receipt of invoice.

Of all finalists, US2 seemed most prepared to speak to the needs of Union Square's existing business community—which is likely due to its already extensive community outreach to local companies such as Ebi Sushi, Elegant Salon, Mid-nite Convenience, Reliable Market and Ricky's Flower Market. US2 talked about the need to analyze the needs of each business that would be impacted and work closely with businesses that meet the long-term vision of Union Square through flexible leasing for a period of time. US2 has also pledged to provide technical assistance to help these businesses increase their sales and, in time, graduate to traditional market-rate leases. US2 seemed the most sensitive of all the teams to the needs of the local business community, and suggested creative ideas like using pop-up or shipping containers to provide affordable retail space for businesses affected during construction. For office tenants, makers and other entrepreneurs, US2 identified a few possible buildings in Union Square to relocate the businesses to if they were temporarily displaced during construction. US2 noted that maintaining local businesses will preserve Union Square's local character, add to its diversity and promote economic sustainability.

- Gerding Edlen has included an impressive mix of local and national retailers at the Brewery Blocks. Stores such as Powell's Books – the largest independent bookstore in the nation – have been preserved. At this development, there were fewer local businesses to retain. Instead, Gerding Edlen focused on enhancing the area to attract new retail tenants, from small eateries and coffee shops to furniture and soft goods retailers. Gerding successfully attracted a ground floor Whole Foods Market to the Brewery Blocks, which served to legitimize the Brewery Blocks and soon, other national retailers followed suit, such as West Elm and Anthropologie.

In terms of Union Square, Gerding discussed their approach of creating smaller spaces with shared amenities in order to make the overall rental costs more affordable for businesses. The team also suggested using New Market Tax Credits to help keep rents affordable. Of all four finalists, Gerding was least specific about intentions for preserving Union Square's local and diverse business community, or plans for relocating affected companies during construction.

- The Abbey Group recognized that because it has not served in the capacity as a Master Developer, its projects have been more piecemeal and therefore, they have not been confronted with the challenge of displaced, local businesses. Their projects included the redevelopment of a parking garage (45 Province) and redevelopment of a former McDonald's site (The Viridian). Its primary commercial project – the Landmark Center – was a former Sears Distribution Center that has since been converted to attract national retailers like Bed Bath & Beyond and Best Buy, as well as institutional tenants like Harvard School of Public Health and Blue Cross/Blue Shield.
- Lack of experience did not get in the way of lack of vision; the Abbey Group discussed their strategy of multi-floor retail, service and maker space that would create a hierarchy of price points. For instance, shops on the ground floor would be subject to premium rents, whereas those who had less frequent foot traffic could relocate to the second or third floor of new buildings. The Abbey Group is also open to drafting flexible leases for some firms as they get off the ground. For instance, the restaurant under construction on the ground floor at 45 Province will have rent relief for its first year. A final idea was to reserve space on Block D2, the first anticipated development site, to temporarily relocate businesses that may be displaced during the development of the other blocks, until those blocks are complete.

Approach to Job Creation

In accordance with SomerVision, the City of Somerville seeks to create at least 30,000 new jobs within the next twenty years. Union Square has been identified as one of the catalyst sites for job creation. It's no secret that 85% of residents leave the city each day to work elsewhere, putting a strain on local businesses during daytime hours. A primary goal for the redevelopment of Union Square is to build a stronger daytime population through new commercial development and job creation.

- Federal Realty noted that its focus will initially be on retail, residential and restaurants. This will generate a buzz and draw local residents to the area; people want to live near amenities. Nowadays, major employers and office tenants are interested in locating where their workers locate, meaning that if we can bring people to Union Square, office tenants will follow, particularly to the Boynton Yards area. Federal Realty expects office development to occur in later phases of the project.

Locally, Federal points to the Partners Healthcare move to Assembly Row; Federal says Partners never would have considered the site if the amenities—like retail and restaurants—were not already in place. Moreover, at Santana Row, the first phases focused on retail and restaurants but the focus has now shifted to office. By the time Santana Row is completely built out, there will be 845,000 sq. ft. of office space (of which 115,000 sq. ft. is already built).

- US2 also stressed the potential to build office and R&D at Boynton Yards, but indicated that a first priority would be to create a visible jobs base within the heart of Union Square. US2 sees Union Square as a regional employment hub, and offered specific ideas for cultivating this vision. Driven by its research, which finds that U.S. high tech service growth has outperformed nonfarm employment by an average of 4 to 1 since 2010, US2 believes Union Square is well positioned to take advantage of job growth within the innovation economy. US2 put forward a deliberate, 5-pronged approach to do so, which includes growing the already vibrant neighborhood to capture an increasingly diverse workforce; building creative spaces that offer spaces from “incubator to incorporated”; and joining a local task force to maximize resident employment and workforce training throughout the development process.

In an apparent show of their commitment to early-stage job creation, US2 has already begun conversations with organizations like Somerville-based Greentown Labs. US2 has talked to MassChallenge about creating a prototyping space for companies emerging from that incubator, and has discussed opening a Workbar satellite location directly across from the new MBTA stop. As companies grow in Somerville, US2 sees creating larger office spaces at Boynton Yards to accommodate a range of firms, from mid-staged entrepreneurs/makers to traditional office anchor tenants and larger biotech/R&D companies.

- Gerding Edlen spoke little about its specific strategies for job creation within Union Square. However, Gerding highlighted its experience building office to spec at the Brewery Blocks, and built-to-suit for medical, R&D spaces along the South Portland Waterfront. The Oregon Health and Science University developed in conjunction with local medical institutions, serves as the South Waterfront's anchor tenant, acting as both a wellness center and laboratory/research center and served by a public light rail system.

- The Abbey Group, like US2, provided unique strategies for growing the local jobs base immediately. The Abbey Group suggested building 200,000 sq. ft. of flexible, creative economy space within the first two years of development on Block D2. A key strategy could be to build a Wellness Center, in which they would try to attract a few dozen primary care doctors to a single location. The effect would be to increase access to healthcare for an otherwise underserved community, as well as create a critical mass of physicians in order to draw secondary medical uses to follow—such as chiropractors and dieticians. The Abbey Group also spoke about growing the innovation economy, and had a representative from T3 Advisors join to discuss the possibility of building an innovation studio in Somerville. To highlight its experience, the Abbey Group pointed to its development at the Riverside Technology Center in Cambridge, a five-story biotech building that serves tenants with approximately 20-30 employees each at occupancy costs that are considered competitive in the Cambridge marketplace..

Experience with Infill Development/Historic Preservation

One thing that makes Union Square stand apart from other areas is the diversity in building architecture. Mixed within the old industrial uses and one-story retail building are historic buildings like the Post Office. As development gets underway in Union Square, it is important to preserve and reuse the historic buildings where feasible as part of a more expansive urban infill project.

- Federal Realty, despite its reputation as a suburban-style retail developer, has proven its ability to integrate historic buildings into its development at Bethesda Row. In many cases, Federal had to negotiate with existing property owners to acquire surrounding properties through private market sale in order to aggregate parcels large enough for development. Private sales were not always possible, however, so Federal had one of two options: either (1) negotiate 99-year ground leases with property owners; or (2) develop alongside existing properties and encourage surrounding land owners to redevelop their parcels, too. At Bethesda Row, Federal showed abutting properties were being developed independently, but all in an effort to revitalize the area. Moreover, Federal pointed to a number of buildings within Bethesda Row that were acquired and then preserved to retain their historical brick façades.
- US2's development at University Village is an example of mixed-use urban infill. Its redevelopment included the historic preservation of multiple buildings along the legendary Maxwell Street. US2 talked about one building in particular in which they took down the bricks, brick by brick, in order to renovate and then replace the façade so that the building was structurally sound moving forward, while still preserving its turn-of-the-century character.
- Gerding Edlen is unquestionably the team with the most broad-based experience with most historic preservation and adaptive reuse; these are central components of the redevelopment of the Brewery Blocks. For instance, the one-story Blitz-Weinhard Brewery (circa 1906) and the Portland Armory (circa 1891) had unique architectural components that Gerding chose to preserve, despite what would be the more cost-effective approach: demolishing and building new. The Armory was transformed into a beautiful performing arts center, and the brewery transformed into a vibrant restaurant and brew house. At one of the Brewery Block buildings, Gerding invested months of effort in trying to successfully figure out how to preserve an eight-story smokehouse that served as a landmark to the district.
- The Abbey Group illustrated a mixture of new construction and adaptive projects on our tour. 45 Province was constructed using materials made of terra-cotta in order to blend with the

historic nature of surrounding buildings like the Old City Hall. 45 Province preserved a few historic components, such as the stairs leading to the old Governor's mansion. The Abbey Group also briefly discussed its development of the Massachusetts Museum of Contemporary Art (Mass MoCA) in North Adams, the historic preservation of an industrial brownfield site that took twelve years of planning and design to complete. It should be noted that the adaptive reuse of the former Sears building represents nothing less than a very challenging project that was brought to a highly successful conclusion by the Abbey Group. This project, the actions of the Abbey Group and the significant public benefits that have arisen as a direct result of the project, were all described in very positive terms by a local non-profit focused on the Fenway area.

First 100 days after selection as Master Developer

Though it has taken years to reach this point of redevelopment in Union Square, the first 100 days after selecting a master development partner will be critical. There are infrastructure improvements that must begin right away, design concepts must be discussed with the MBTA and conversations with the local community must begin with the master developer partner in earnest. Learning how each team would approach its first 100 days as developer shed light onto their perceived priorities.

- Federal Realty had a very concrete understanding of what work is necessary to begin immediately, such as working with Parsons Brinkerhoff (the infrastructure contractors), meeting with the MBTA and beginning a community charette with the CAC at the helm. However, Federal also noted that a priority would be to engage with neighboring landowners to strategize how redevelopment can occur simultaneously and in a manner that is advantageous for both developers and residents alike. Federal pointed to its local presence and existing relationships with the City and MBTA as advantageous for beginning its work immediately.
- US2 also had a solid plan of action, which included working on infrastructure and having conversations with the community to gain a deeper understanding of local priorities. US2 discussed an “early activation” strategy that would help draw people to Union Square and brand the area as a place with both amenities and entrepreneurs. To that end, US2 would meet with established leaders within the innovation economy to gain input and advice as to the best ways spur job creation immediately. Although not a locally-based firm, US2 has assembled a local team, and key leaders of their Chicago-based team indicated they would be on the ground in Union Square as soon as selected—even if this meant they had to work out of a trailer in Union Square until finding a more permanent Somerville-based office.
- Gerding Edlen focused on the need to meet with local retailers and community advocates in order to understand local needs and priorities. Gerding spoke at great length of their commitment to working with local stakeholders at all levels, citing their success in negotiating a municipal and state review and approval process which, according to Gerding and public officials with whom we spoke, is even more rigorous than that which we are accustomed to here in Somerville.
- The Abbey Group was the only team not specifically asked this question, but several of their comments indicated their priorities. First, the Abbey Group talked about getting onto the site immediately to address issues of soil contamination. They would start to identify opportunities for tax credits, for both brownfield remediation and historic preservation. Second, the Abbey

Group spoke about meeting with business and landowners in the area. The Abbey Group said they had limited this activity up front (during the selection process) so as not to come across as presumptuous and/or confuse stakeholders as to the Abbey Group's current role.

Team Overviews

In addition to being asked specific questions about the topics above, the Due Diligence delegation had the opportunity to learn more about the qualities of each team during site tours. Below is a general overview of each team, including direct quotes from the written evaluations the Due Diligence delegation completed. For the sake of this report, comments have been left anonymous.

Federal Realty

There was general agreement that Federal Realty is at some advantage because of its thorough understanding of Somerville and strong relationships with City officials. Federal already has a local presence and would be able to hit the ground running if selected as a Master Developer for Union Square. Using our preexisting knowledge of Federal Realty, combined with glowing reviews from community stakeholders in both Bethesda and San Jose, it is clear that Federal would be a cooperative partner at Union Square.

Federal was also perhaps the team most familiar with development schedule for Union Square. The team recognized that working with the MBTA and Parsons Brinkerhoff must begin immediately. Federal understood unique challenges in Union Square, such as the fragmented ownership of Block D6. Federal spoke to the importance of the urban renewal plan and the SRA's ability to position the use of eminent domain as a tool for encouraging private land owners to cooperate on joint strategies. Because of its local presence, Federal already knows many of the other private developers, and could draw on these relationships to move the project forward.

Also positive is Federal Realty's transparency and willingness to talk openly about its mistakes. The team "discussed how Santana's Row's mix of initial retail (luxury) and layout (second floor retail plan) were not successful." Federal admitted this was largely in part to making retail decisions for San Jose from its headquarters in Maryland. In short time, Federal realized that it needed to have a thorough understanding of local markets in order to be successful. They adapted their retail strategy for Santana Row, which now includes more approachable retail, and it has since been incredibly successful. Federal Realty has the benefit of already understanding the local market here in Somerville.

Perhaps because they are such a "known commodity," Federal also drew some concern from Due Diligence members. "They are a suburban-style developer," wrote one member of the delegation. "They are really good at starting with a blank slate and creating rows," wrote another. Despite Federal acknowledging that no two projects are alike, some members felt that Federal's prior experience would not be as applicable to the dense, urban infill project that is Union Square.

Moreover, the Federal team focused little on long-term job creation. Their presentation instead spoke to harnessing the potential of a mix of new retail, restaurants and residential in Union Square, and then later focusing on office development. There was "not much research into the leading-edge businesses that may supply future job growth." While Federal's partner – National Development – is an adept

developer of office and R&D space, there was little conversation as to the role National would play in growing the jobs base, or tapping into Somerville's burgeoning innovation economy.

US2

Despite its status as an "outsider", US2 showed perhaps the greatest understanding of the needs of and vision for Union Square. "I was very impressed with US2 in their understanding of Union Square. They get it," wrote one member. This was reflected in US2's energetic presentation, in which they talked about how great places are not defined by buildings and streetscapes—they're defined by the people who call them home. "It's the firefighter with three kids who coaches little league, the artist who creates in her street-side studio and the sous chef who lives above the restaurant that give life and soul to a neighborhood," said US2. US2 seemed the most committed to retaining Union Square's soul through deliberate economic development strategies.

For instance, US2 talked about bringing in a "Neighborhood Concierge" to the heart of Union Square, who will regularly meet with residents, retailers, restaurants and market/festival sponsors in order to understand their current and future needs. A new "Idea Center" would serve as a place for community businesses and residents to offer feedback, ask questions, inquire about employment or seek business assistance. The Idea Center would serve other uses, including as a community gathering space for planning workshops and an exhibit space for local makers and artists. To get the Idea center open as quickly as possible, US2 spoke to opening it at first as a "pop up" building, using shipping containers, at the north end of Block D2. "The building will inspire creativity and serve as a symbol of the potential for Union Square," they said.

In order to retain a diverse mix of businesses in Somerville, US2 laid out strategies for creating space for businesses across seven stages of entrepreneurship – from "Solo Entrepreneur" to "Corporate Player". From the moment US2 is selected as a master developer, they would begin marketing Union Square to mature companies as location decisions for companies such as these take time. Meanwhile, early in the project, US2 said they would focus on attracting earlier stage companies and building the mixed-use environment to appeal to this workforce. "Magellan/Mesirow had done a lot of research on Somerville, our population and specifically, the likely drivers of job growth in the Boston, Cambridge and Somerville market," wrote one delegation member.

Finally, US2 drew praise for its "very impressive, wonderful approach" to housing. Not only does the team build a variety of housing units, including a large number of 3- and 4-bedroom units, but it has also created an in-house, low-cost second mortgage program to make homeownership more affordable for working and middle-income families. US2 spoke often about the need to build affordable housing and larger units for families, as families and children help make developments feel like true communities. (US2 also incorporated an elementary school into Lakeshore East to draw families to the development.) Moreover, Chicago has a 20% affordable housing mandate so US2 is adept at incorporating a mix of affordable housing units (from 1-4 BR units to townhouses and single-family homes) into its projects.

For all of its praise around its approach to community and economic development, there was some concern that US2 has done less master planning around new transit-oriented development than the other teams. The two districts we saw, Lakeshore East and University Village, did not have the same transit integration as Union Square will require.

Gerding Edlen

Gerding Edlen's experience with infill development, historic preservation and eye toward sustainability is certainly something many delegation members saw as being a match for Union Square. As noted in a previous section, Gerding successfully completed imaginative projects such as the transformation of a historic auto body shop into a modern brew house and renovated the Portland Armory into a new community performing arts center. Both of these former uses are similar to uses we have in Union Square, which allowed members to see the possibility of adapting existing buildings through great design.

Without a doubt, Gerding was also the most sustainability-oriented of the teams. Every building within the Brewery Blocks is slated to achieve LEED status, and the Portland Armory is the first LEED-Platinum historic preservation project in the nation. Gerding has recycled a majority of the construction waste at the Brewery Blocks, and then built using durable, eco-friendly building materials to minimize future waste. They incorporate features such as solar panels, energy efficient appliances, low-flow plumbing fixtures, ecoroofs and rainwater harvesting into their buildings. Gerding has set a goal to reduce energy consumption in its buildings by 50% within the next two years, with an ultimate goal of having their buildings *produce* energy within five years.

In addition to sustainable design principles, Gerding also focuses on connecting people to nature through programmed parks and recreational facilities. Gerding integrated its development at the South Waterfront to connect it to walking trails, a river and a new riverfront greenway, and a large central park. Similarly, Gerding tries to deliberately reduce residents' dependence on the automobile, through integration of wider sidewalks, bicycle lanes and public transit.

In speaking with municipal officials, they were unanimous in their praise of Gerding as "the gold standard" by which all other developers in the City and the state are held. There was widespread praise for Gerding's imaginative and persistent efforts in creating a mixed-use project in downtown Portland that included both affordable housing (curiously, Oregon has no statutory requirement for the creation of affordable housing) and drug treatment center.

One of the most important elements that some of the members of the delegation came away with from our day in Portland was that there was a perceived lack of passion in Gerding's presentation. For whatever reason, Gerding's almost "laid back" approach was puzzling, particularly in contrast to the approach taken by some of the other teams. Gerding did not seem well-connected or have a solid understanding of Union Square's DNA. "Union Square should not become Portland, but could with this group," wrote one delegation member. Gerding was "strong on jargon, short on ideas" said another.

The delegation came to Portland with the reasonable expectation that Gerding would speak to some of the issues that are dear to Somerville's collective heart—the innovation economy, the maker movement and small businesses. Yet questions remain about how Gerding would approach this segment of the economy. They had "no concrete ideas or plans for job creation, job training, maximizing commercial vs. residential, growing the innovative economy, or approach to affordability and retention of current businesses," wrote someone.

The irony was that while much of Portland and many of Gerding's successful projects seemed almost directly applicable to all that we hope to see Union Square become, but their approach was decidedly less forceful. In addition, the members of the delegation strongly indicated that they expected to see a

full time presence in our City once any master developer is selected, and Gerding was the only team that did not commit to being on the ground immediately.

The Abbey Group

What the Abbey Group lacks in terms of serving as a Master Developer, it makes up for by “good contextual problem solving in development and operations”. The group talked about its unique solutions for moving challenging developments like 45 Province and the Landmark Center forward. At 45 Province, the Abbey Group had to identify a way to transform a parking garage into a modern residential tower in the heart of an old historic district. Meanwhile, the business community expressed its displeasure in losing that parking structure, which it saw as vital to the central business district. In response, the Abbey Group developed a parking solution that included a parking garage on levels 3-6, as well as underground parking—50% of the total parking was reserved for residents of the building; the other 50% was for municipal parking to ensure the local businesses still had sufficient parking.

At the Landmark Center, a handful of developers had tried to take on the project and time and again, failed to transform the former Sears building into a modern commercial center. In creating a modern design for the historic building, Abbey attracted large tenants, such as Blue Cross/Blue Shield and Harvard Medical School. This led to a total of 630,000 sq. ft. of new business for the Fenway, which served as a catalyst for the neighborhood. More than 250,000 sq. ft. of retail helped to establish Fenway as a viable regional destination. Now, the Fenway is one of the most vibrant neighborhoods in downtown Boston.

The Abbey Group impressed the delegation for its plans to “start [developing] right away, especially with a medical services facility” at Block D-2. This showed the group the team’s commitment to job creation, and understanding of the otherwise medically underserved population in Union Square. Moreover, the Abbey Group “guaranteed self-financing for 100,000 sq. ft. of commercial development on the D-2 Parcel, and platform for up to 200,000 sq. ft. on D-2” within two years.

One of the most significant concerns about the Abbey Group is its lack of transparency regarding its financing structure. The team talked about having “significant resources” and utilizing “various debt scenarios,” but did not specifically shed light into their current debt/equity allocation and resources. The Abbey Group seemed interested in capitalizing on the many city, state and federal programs available to developers (such as historic and brownfield tax credits)—which are important resources that should not be left on the table, but a selected master developer must also be cautious not to expect or rely on these funding sources.

Another concern is that the Abbey Group, despite taking on multiple projects within a few neighborhoods, has not taken on the responsibility of a master developer before. The projects in the Fenway were over a long period of time and did not include solving multiple challenges at once—infrastructure (water, sewer, roads), integrating public transit, land assembly, brownfield remediation, new building construction, job creation and placemaking, to name a few. The Landmark Center, however, unquestionably required close coordination with the MBTA in integrating a redesigned and more accessible Green Line Station immediately adjacent to the property,

CONCLUSIONS

While there was a wide divergence of opinion among delegation members as to the strengths and weaknesses of the four teams visited, it was a general consensus that in all likelihood, each of the four finalists recommended by the CAC has the capacity and the experience to successfully perform as the City's Master Developer partner. We went into the trip knowing that the Federal/National team had shown the unquestioned ability to create retail-focused, but ultimately mixed-use projects. Moreover, the partnership between Federal and the City of Somerville on Assembly Row has been a mutually productive one. While some members of the delegation expressed reservations about Federal's focus and approach, there can be no doubt that Federal has the experience, the financial wherewithal and the commitment to enhance Union Square.

US2 was unquestionably the biggest surprise of the trip. By far, US2 demonstrated that they had done their homework, done more outreach and formulated the most ambitious plan. They are well capitalized; they showed experience in working hand in hand with the City and the State of Illinois on the very large Lake Shore East project's infrastructure needs. US2 showed both sensitivity and imagination in recasting what was an absolutely a downtrodden area, transforming University Village into a thriving, mixed-use neighborhood full through both quality infill and adaptive reuse, all while maintaining an independent commercial base. Simply put, US2 truly stepped up and demonstrated how badly they hope to be the City's Master Developer partner.

Gerding Edlen, based upon the delegation's trip, is a bit of an enigma. Elected officials in Portland and Boston speak glowingly of Gerding's working relationship with a variety of interests. They've created a solid relationship with labor. They were able to take the question as to how past failures had impacted the company and turn it into an advantage, working with lenders, builders and buyers to ultimately a successful end. They've embraced the concept and practice of using adaptive reuse of historic structures to create linchpins for urban neighborhoods. They surpass the other teams in sustainable design and construction and they've been successful in using transit-oriented development in a manner that encouraged lab/ R+D spaces. Yet for the delegation, the question remains: where's the passion?

As to the final team, the Abbey Group's transformation of the former Sears building into the Landmark Center was a distinctive achievement. They showed perhaps the most imagination of any group in their discussion of using Union Square as an "ecodistrict" or an arts district. Their understanding of changes in the health care industry and the means by which the attraction of medical practices can create a "snow ball" effect for other related businesses to congregate in an area was well received. That same approach to the creative industry was also noted. While the argument that the Abbey Group played a significant role in transforming entire neighborhoods such as the Fenway and Downtown Crossing, the physical separation between buildings and the time span between projects did not seem to fully meet the Master Developer approach referred to in the RFQ.

Somerville by Design Blog entries:

After seeing each of the development projects, we posted a recap of what we saw and the reaction from team members on the Somerville by Design website. Each entry includes pictures of the developments we saw. Blog entries can be found online at the links below. Hard copies will be made available to all members of the Due Diligence team, SRA, CAC and the Board of Aldermen.

Federal Realty

<http://www.somervillebydesign.com/usq-developer-research-bethesda-row/>

<http://www.somervillebydesign.com/usq-developer-research-san-jose/>

US2

<http://www.somervillebydesign.com/usq-developer-research-lakeshore-east-university-village/>

Gerding Edlen

<http://www.somervillebydesign.com/usq-developer-research-portland/>

The Abbey Group

<http://www.somervillebydesign.com/usq-developer-research-boston/>

Lastly, in the continued spirit of transparency and with an appreciation that a picture can be worth a thousand words, we are also providing links to the presentation materials utilized by members of the various teams, along with any handouts.

This material may be found on line at the following links. We urge you to review this list of currently available materials. We expect additional files/ video presentations to become available early next week and will post that information as well.

US2

<http://www.somervillema.gov/sites/default/files/documents/union-sq-us2-tour-presentation-06-13-2014.pdf>

<http://www.somervillema.gov/sites/default/files/documents/union-sq-us2-university-village-06-13-2014.pdf>

<http://www.somervillema.gov/sites/default/files/documents/union-sq-us2-lakeshore-east-06-13-2014.pdf>

Gerding Edlen

<http://www.somervillema.gov/sites/default/files/documents/union-sq-gerding-edlen-pdx-tour-06-13-2014.pdf>

The Abbey Group

<http://www.somervillema.gov/sites/default/files/documents/union-sq-abbey-group-tour-06-13-2014.pdf>

<http://www.somervillema.gov/sites/default/files/documents/union-sq-abbey-group-boards-06-13-2014.pdf>

